

CHAPTER 4

THE PRICE BEHAVIOUR

4.1. Judging by the trend of the Wholesale Price Index, there was a welcome reduction in the intensity of inflationary pressures in the last quarter of 1974. The Wholesale Price Index registered a decline of 3 per cent in a period of five weeks starting from the peak level touched in the third week of September 1974. In November, the index remained stable and this was followed by a marginal decline in December, 1974. The decline in prices during this period, notwithstanding an unsatisfactory kharif crop, suggests some weakening in the strength of inflationary forces. However, since the decline in prices has been no more than about 5 per cent, it will be premature to conclude that this signifies a fundamental change in the outlook for prices.

4.2. Since the pressure on prices continued till late in the year, it is not surprising that the Wholesale Price Index rose in 1974 by 27.3 per cent as against 19.2 per cent in 1973. Comparing the index for December, 1974 with that of a year earlier, the picture is somewhat more comforting, reflecting as it does the decline in prices in the last quarter of the year. However, the relief obtained so far has been relatively insignificant in the face of a steady and substantial increase in prices in the earlier part of the year.

4.3. With the improved prospects for the forthcoming rabi crop after the rains in December 1974, in-

flationary expectations may receive a further setback. However, as of now, all that can be hoped for is a slowing down in the rate of increase in prices in the coming months. If the present trend persists, the Wholesale Price Index for March, 1975 may stand no more than 15 per cent above the level of March, 1974 as compared to an increase of almost 29 per cent between March, 1973 and March, 1974. There are still substantial imbalances in the economy and, as such, one cannot predict with confidence that inflationary pressures have been effectively brought under control.

4.4. The rapid increase in wholesale prices in the first nine months of 1974 was duly reflected in the retail prices. The Consumer Price Index advanced from 248 in September, 1973 to 334 in September, 1974. The index for October 1974 rose, however, by just one point to 335, this being due to the fact that the effect of the fall in wholesale prices noticed after the third week of September had been felt in about half of the centres covered by the Consumer Index. In November 1974 the Consumer Index declined by four points, i.e. to 331. Overall, between November, 1973 and November, 1974 there was a rise of 27.8 per cent in the Index; in the previous year, the rise had been 23.3 per cent.

TABLE 4.1
Index Numbers of Wholesale Prices
(Base: 1961-62=100)

	Weight (per cent)	Per cent variations over the preceding year					
		1971	1972	1973	1974*	Dec. '74* over Dec. '73	
ALL COMMODITIES	(100.00)	3.9	7.8	19.2	27.3	(27.2)	21.0
Food Articles	(41.30)	1.8	11.4	20.9	26.1	(26.0)	22.9
Foodgrains	(14.78)	0.1	13.3	18.1	35.3	(38.9)	33.9
Cereals	(12.10)	-1.5	10.8	16.6	37.9	(42.7)	35.2
Pulses	(2.68)	5.9	22.0	22.9	27.4	(27.4)	30.1
Edible oils	(5.37)	-8.9	2.3	49.2	25.5	(20.8)	18.5
Sugar & allied products	(6.48)	21.5	33.4	6.5	4.8	(6.1)	12.7
Liquor & Tobacco	(2.50)	2.5	17.3	10.4	18.4	(22.5)	22.8
Fuel, Power, Light & Lubricants	(6.10)	5.3	5.5	10.5	52.9	(57.5)	35.5
Industrial Raw Materials	(12.10)	0.4	-1.2	44.0	19.8	(14.8)	4.1
Raw cotton	(2.44)	22.3	-24.1	40.2	38.2	(34.1)	0.2
Raw jute & mesta	(1.16)	-7.4	8.1	2.2	-7.5	(-0.5)	21.3
Oilseeds	(5.24)	-7.1	2.8	57.9	20.5	(13.6)	7.4
Chemicals	(0.70)	3.3	2.7	5.2	33.8	(38.3)	44.8
Machinery & Transport Equipment	(7.90)	7.5	6.4	6.2	35.3	(39.7)	44.1
Manufactures	(29.40)	8.4	6.1	11.4	27.5	(28.2)	17.6
Intermediate products	(5.70)	10.0	8.1	19.0	29.8	(27.6)	4.4
Finished products	(23.70)	7.9	5.5	9.0	26.7	(28.3)	22.3

*Provisional.

Note: Figures in brackets under 1974 relate to the period April-December 1974 as compared to April-December, 1973.

4.5. Both in 1972 and 1973, the pressure on the general price level had come largely from the side of food articles. In 1973, in addition, considerable pressure had developed in respect of raw materials. However, in 1974, the manufactures group took over the role played by raw materials in the previous year; food articles and manufactures together accounted for about 70 per cent of the increase in the Wholesale Price Index. After the sharp rise in raw material prices in 1973, it was inevitable that the manufactures group should display the same tendency, though with a time lag. In fact, the trend had become visible in the latter half of 1973 itself; the upward movement in 1974 reflected not only the working of the market mechanism but also, to some extent, Government's own actions in respect of administered prices.

4.6. A glance at the last but one column in Table 4.1 will bring the whole situation into focus. The increase of 52.9 per cent in the Fuel, Power, etc. group in 1974 clearly reflected the steep increase in international prices of petroleum early in the year. Chemicals, Machinery and Transport Equipment and Manufactures registered price increases larger than that in the case of Food Articles. The Liquor and Tobacco group showed a moderate rise of 18.4 per cent. It was only in the case of Industrial Raw Materials that the price rise in 1974 was less sharp than in the previous year. Lower average prices of raw jute and mesta, and a decline in prices of all important raw materials in the last quarter of the year, were responsible for this outcome.

4.7. Another way of looking at the problem of adjustment to changing circumstances is to take note of the movement of prices during the course of the year. While the last column of Table 4.1 provides a synoptic view of the same, it is of interest that the indices for two groups—chemicals and machinery and transport equipment—showed a steady rise throughout the year. The manufactures group also behaved in the same fashion upto September, but this was followed by a decline, with lower prices of silk and rayon manufactures after June, 1974 and of cotton textiles after October. The corresponding intermediate goods, i.e., rayon and cotton yarn, showed a price fall—a very sharp one in the case of the former—from July and August respectively. Another important intermediate good, viz; metals, registered a declining trend, partly as a result of international factors, after August 1974, so that the sub-group of intermediate products as a whole showed a fall from September; the other sub-group under manufactures, namely, finished goods, followed suit two months later.

4.8. The liquor and tobacco group had a brief period of stability during the July-September quarter, after which the rising trend re-asserted itself. In the fuel and power group, there was a sharp increase in the prices of petroleum products in March; this was followed by an upward revision of coal prices with effect from April 1974. Since then, there has been only a small rise in the group index, largely attributable to higher freight rates.

4.9. As would be evident from the earlier discussion, the group index for industrial raw materials rose substantially between December, 1973 and September, 1974. Subsequently, there was a reversal, with

raw cotton prices falling precipitately in October and November. Prices of raw jute and mesta also declined, but this was after an appreciable rise in the preceding two months consequent on damage to the crop by floods. Oilseeds prices fell from September, despite reports that the kharif crop of groundnuts would not be very satisfactory. The prices of raw hides seemed to have stabilised from July, 1974 while those of raw skins fell in November.

4.10. The major consumption group of Food Articles also showed a declining trend after September, 1974. Foodgrains prices fell from October, while those of edible oils showed a downtrend from September. It does not, of course, follow that all foodgrains and all oils behaved in the same fashion. Thus, bajra prices increased substantially, while pulses as a whole registered a small rise because of an upward trend in the case of arhar. Among edible oils, prices of coconut oil rose in November but tended to decline thereafter.

4.11. Some explanation appears to be called for in regard to the steady increase in prices of food articles, and of foodgrains in particular, which continued upto September 1974, despite a considerable increase in production of foodgrains in 1973-74. The output of foodgrains rose from 97.0 million tonnes in 1972-73 to 103.6 million tonnes in 1973-74. Despite a substantial improvement, it was still less than the earlier peak of 108.4 million tonnes in 1970-71. This was due to a considerable damage to the rabi crop from a cold wave in December, 1973 and again in February, 1974 which led to a decline in wheat production for the second year in succession to a level of 22.1 million tonnes as against 26.4 million tonnes in 1971-72. This unforeseen development, superimposed as it was on a strong inflationary environment, served to counteract substantially the beneficial effects expected in the wake of a good kharif crop.

4.12. An increase in procurement and issue prices of wheat in April, 1974, coupled with a change in the system of procurement for the second year in succession, lent further impetus to inflationary expectations. In April, 1973 takeover of the wholesale trade in wheat had been decided upon, and it had been hoped to procure as much as 8 million tonnes. With actual procurement even less than that achieved in 1972-73, the policy again underwent a change in April, 1974—with traders being permitted to operate on the condition that half of their purchases would be handed over to Government at the (new) procurement price of Rs. 105 per quintal. However, on account of hoarding by farmers, and attempts by unscrupulous elements to capture stocks at the village level itself, market arrivals suffered. Consequently, open market prices rose sharply at the same time that issue prices were increased to allow for the higher procurement prices payable to farmers. Also, the volume of procurement suffered a severe setback.

4.13 Thus the public distribution system came under pressure precisely when there appeared to be the greatest need for extending and intensifying its operations. Both on account of the above-mentioned developments in the procurement and prices of wheat and a rapid increase in money supply, the seasonal

rise in prices from May to August 1974 turned out to be much larger than normal. It thus became necessary to operate directly upon the purchasing power in the hands of consumers, and the anti-inflationary measures of July, 1974 were the result thereof. Combined with the action taken against hoarders and smugglers under the Essential Commodities Act and the Maintenance of Internal Security Act, the psychology based on an expectation that prices would continue to rise has at least been given a jolt; further success in this field depends not only on the behaviour of various fiscal and monetary variables but also on the outlook for the availability of essential consumer goods.

Public Distribution System

4.14. Procurement of foodgrains in the marketing year November, 1973 to October, 1974 came to only 6.22 million tonnes as against 7.56 million tonnes in 1972-73 (November-October). While procurement from the kharif came to 4.27 million tonnes, i.e. 1.26 million tonnes more than in 1972-73, rabi procurement was dismally low at 1.91 million tonnes. Despite the setback in procurement, public distribution was maintained at a reasonable level in the domestic market. Imports helped significantly in augmenting the availability of foodgrains. The overall availability of foodgrains in the country at 107.8 million tonnes was substantially in excess of the previous year. As compared to 1971-72, however, the position was no better despite an increase of about 5 per cent in population since then. It is, therefore, not surprising that the price line failed to be held in respect of foodgrains. It may also be pointed out that the sharp rise in wheat prices after April 1974 as indicated by the Wholesale Price Index, is partly statistical in nature. After the take-over of wholesale trade in wheat in April 1973, only official issue prices were being recorded as wholesale prices. With the reversal of the take-over policy in April 1974, the old practice of using a combination of free market and issue prices was resumed. As a result, while the rise in prices in 1973 was understated, the official data also overstate the extent of rise in wholesale prices of wheat since April 1974.

TABLE 4.2
Availability of food grains

	(In million tonnes)		
	November—October 1973-74	1972-73	1971-72
1. Domestic Production	103.6	97.0	105.2
2. Procurement	6.2	7.6	8.3
3. Releases from Govt. stocks	10.4	11.7	10.1
4. Total availability (1—2+3)	107.8	101.1	107.0

4.15. The public distribution system also covers sugar. Even though about two thirds of sugar production is directly issued to consumers, the overall volume of releases for internal consumption has considerable influence over market prices of non-levy sugar. The 1973-74 (October-September) sugar season opened with a stock of 8.6 lakh tonnes as against 6 lakh tonnes on October 1, 1972. Production,

too, was slightly higher than in 1972-73, but releases for domestic consumption could not be stepped up, as a significant quantity had to be earmarked for exports so as to lend support to our balance of payments. With little or no subsidy involved, exports in 1973-74 totalled 4.05 lakh tonnes, four times the previous season's figure. But the expectations of large scale exports pushed up open market prices by as much as Rs. 150 per quintal between the middle of August and the middle of September, 1974. Prices of gur and khandsari rose in sympathy, and the wholesale price index for this group was pushed up inordinately. However, there was a decline in prices after October, 1974.

4.16. Over the past year or so, distribution of vanaspati has also been arranged through fair price shops as the supply position has been tight. Although the groundnut crop in particular, and oilseeds in general, were badly affected by the drought in 1972-73, the impact on the vanaspati industry seems to have been felt severely in 1973-74. With production of vanaspati in 1973-74 running at 10 per cent below the previous year's level, availability, which was seldom adequate even in earlier years, suffered a sharp setback. Reduced supplies of the relatively cheaper imported oils led to the industry cutting back production, and even the increases allowed in the controlled prices of vanaspati failed to have the desired impact on production. The increase in prices in February 1974 did result in an improvement in output as compared to the previous month, but this state of affairs lasted only upto April. Production declined appreciably in May, and was halved in June, even though a second price increase was permitted during the month. Some improvement was again recorded in July and subsequent months, but production continued to be below normal until November 1974. With the removal of price control on vanaspati in January 1975, output may be expected to revive.

4.17. The public distribution system also extends, whether formally or informally, to items like kerosene and popular varieties of cotton cloth. By and large, the distribution system for the former has worked well. No doubt, from time to time cuts in State quotas had to be imposed, but these could be restored before any substantial shortages developed. Under the revised scheme for the controlled cloth, the textile industry is required to produce 800 million square metres per annum. However, there have been complaints about the working of the system with regard to controlled cloth which, it is alleged, fails to reach those for whom it is intended, or becomes available at prices which reduces the effectiveness of the scheme. Fortunately, the National Textile Corporation, a public sector enterprise, now accounts for nearly 20 per cent of mill-made cotton cloth in the country. This provides the Government with yet another powerful instrument for regulating the production, prices and distribution of cloth in terms of overall national priorities.

4.18 In a period of steeply rising prices, problems of distribution have inevitably assumed greater importance. A committee was set up by the Planning Commission in March, 1973 to go into the problem

of making available essential commodities and articles of mass consumption at reasonable prices. While no decision has, as yet, been taken on the report as a whole, its views have already begun to find a place in current practice. Thus, a 'janta' toilet soap has been put on the market by two major producers. Of course, an effective public distribution system necessarily implies strict control over both production and procurement which is not an easy task. The ground for a more effective system of public distribution has been laid by the setting up of a Department of Civil Supplies in the Ministry of Industrial Development. This replaces the earlier Civil Supplies Organisation which was charged with the responsibility of keeping a watch on the local supply position of 20 essential commodities. As this organisation was mainly a body for maintaining liaison with the State Governments, and had no say in production, or even distribution allocations, it was unable to play the role expected of it. The new department of Civil Supplies is expected to fill this gap. Given the structural rigidities in our economy, a really effective public distribution system, covering a large number of articles of mass consumption, will take quite some time to materialise; and, in the short run, a more realistic strategy would be to concentrate all the attention on a few basic commodities such as foodgrains, sugar, kerosene, vanaspati and controlled cloth. In all these commodities, there is very considerable scope for streamlining the existing arrangements for public distribution.

Price Policy

4.19 As mentioned earlier, there was a major change in the procurement policy for wheat in April, 1974. Under the new policy for the 1974-75 rabi marketing season, Government monopoly in wholesale trade introduced in April 1973, was given up, and private traders and cooperative societies were permitted to operate under a system of licensing and control along with the public agencies. Private wholesalers as well as cooperatives were allowed to make purchases of wheat in the surplus States of Haryana, Punjab, U.P., Madhya Pradesh and Rajasthan. After handing over 50 per cent of their purchases as levy to the Government at a fixed price of Rs. 105 per quintal, they were allowed to sell the balance within the State, as also outside on the basis of export permits. This price of Rs. 105 per quintal was the same as the procurement price fixed by Government for the 1974-75 season which was substantially higher than the price of Rs. 90-100 per quintal recommended by the Agricultural Prices Commission. The new procurement price implied an increase of 38 per cent as compared to the 1973 procurement price of Rs. 76 per quintal. In order to reduce the impact of higher procurement prices on budgetary resources, the issue prices of wheat from Central godowns, which had, in November 1973, been raised from Rs. 78 per quintal to Rs. 90 per quintal, were further enhanced to Rs. 125 per quintal from the middle of April, 1974.

4.20 When the 50 per cent trader levy system was introduced, it was hoped that about 5 million tonnes of wheat would be delivered to the Government for public distribution. These hopes were not fulfilled

and procurement of wheat during April-October, 1974 came to only 18.44 lakhs tonnes as against 45.29 lakh tonnes in the corresponding period of 1973. The decline in the output of wheat by 26.7 lakh tonnes in 1973-74 is no doubt a partial, but not a sufficient, explanation for this outcome. There are indications to the effect that market arrivals were manipulated by farmers and traders in order to avoid paying the levy.

4.21 The experience in regard to procurement prices for wheat considerably influenced the procurement policy for the kharif crop of 1974-75. In 1973, the Agricultural Prices Commission had recommended a procurement price of Rs. 63 per quintal for paddy which was Rs. 9 more than the average of Rs. 54 for the 1972 season. The Government, however, fixed the procurement price at Rs. 70. In 1974, the Agricultural Prices Commission had recommended a procurement price of Rs. 74 per quintal (for coarse variety). Despite pressure from various quarters, the Agricultural Prices Commission's recommendation was accepted by the Government. By now, there is considerable evidence to the effect that higher procurement prices do not necessarily guarantee higher procurement, but they do tend to create expectations of a further price rise. However, the abnormal circumstances of the last two years do not, in any way, minimise the importance of providing remunerative prices to farmers as a means of securing higher production.

4.22 Procurement in the 1974-75 kharif marketing season got off to a slow start. To some extent, this was on account of delay on the part of State Governments in finalising their procurement plans for the current season. In 1973 only two States, Assam and Orissa, had undertaken monopoly purchase of paddy/rice. Both have now opted for a levy on millers, a graded one in the case of the former, and at 75 per cent in the latter State. Levies on millers/dealers/wholesalers have been continued in the States of Andhra Pradesh, Bihar, Haryana, Madhya Pradesh, Orissa, Punjab, Tamil Nadu, U.P., and West Bengal. Karnataka has given up the levy on millers, while rates have been lowered in Haryana, Madhya Pradesh and West Bengal. U.P. has revised the levy percentage upwards, while Bihar and Orissa have substituted percentage levies for absolute ones. Andhra Pradesh and Punjab have made no change in their procurement practices as compared to 1973-74. As against some tendency towards a relaxation in respect of a levy on the miller/trader the producers' levy seems to have found greater acceptance this year. Madhya Pradesh, Orissa, Rajasthan and Tamil Nadu have adopted this method, while Andhra Pradesh and West Bengal have raised the levy percentage. On the other hand, Bihar, Gujarat and Karnataka have reduced the levy rates.

4.23 Fortunately procurement has picked up after the first hesitant start, and market arrivals have improved considerably in States like Punjab. Procurement of rice in the Punjab during October-December 1974 amounted to 5.23 lakh tonnes as against 6.21 lakh tonnes in October-December 1973. The procurement of foodgrains in the country during the current kharif marketing season until December 1974

amounted to 1.44 million tonnes as compared to 1.93 million tonnes in the corresponding period of 1973. Considering that the production of kharif grains in 1974 was much lower than in 1973, this is not an unsatisfactory performance.

4.24 The minimum price of sugarcane for the 1974-75 season has been fixed at Rs. 8.50 per quintal for a recovery of 8.5 per cent, as against Rs. 8.00 per quintal in the previous two seasons. The premium for better recovery in terms of full proportionality comes to 10 paise for every 0.1 per cent in the recovery. Since in most States, prices actually received by cane growers are higher than the minimum cane prices as statutorily fixed, the allocative effects of the mechanism are far from certain.

4.25 As mentioned earlier, price increases were allowed twice during the year to vanaspati manufacturers, once in February and again in June 1974. On the latter occasion the increase came to between Rs. 1800—2200 per tonne as the Government was no longer in a position to continue the subsidy given indirectly, in the form of cheap imported oil. In a situation in which cheaper imported oils are no longer available, and domestic prices of vegetable oilseeds are not controllable, the old formula for fixation of controlled prices had ceased to either ensure an orderly growth of production or to provide any genuine relief to the consumer. It was, therefore, decided to lift the statutory price control on vanaspati with effect from January 5, 1975. A development of note is that, under the new arrangement, industry is expected to restrict the usage of groundnut oil to the barest minimum (25 per cent for the time being) and to depend more on non-traditional oils like cottonseed and rice bran oils which are not edible in liquid form. This would mean that larger quantities of the traditional edible oils such as groundnut oil will be available for consumption in liquid form.

4.26 The policy in regard to cotton cloth came under review in April, 1974 when the prices of controlled cloth were raised by 30 per cent. This was intended to boost the production of popular varieties of cloth which had become uneconomical because of the considerable rise in raw cotton prices since May 1968, when the prices of cloth had last been fixed. At the same time, the industry's commitment to produce controlled cloth was doubled from 400 million square metres to 800 million square metres. Medium 'A' varieties of cloth were also brought into the ambit of control. The penalty for non-fulfilment of obligations was sharply stepped up from Re. 1 to Rs. 2.50 per sq. metre, though transfer of obligations and set-off against exports continued to be allowed. As a result of these measures, the output of controlled cloth during the period April-September, 1974 came to only a little less than 400 million square metres. With effect from October 1, 1974 the scheme for the production of controlled cloth has been slightly modified. From that date an obligation has been placed on each mill to produce 30 per cent as controlled cloth. The obligation would stand reduced to the extent of 1 metre of controlled cloth for export of Rs. 5 worth of cotton textiles or Rs. 7.50 worth of garments. The new scheme would seem to be aimed at encouraging exports, though not neces-

sarily at the expense of the overall quota of controlled cloth. However, the effectiveness of a single composite obligation to achieve the two separate objectives, of ensuring simultaneously an adequate production of controlled cloth and a sustained increase in exports, can be assessed only in the light of actual experience. It appears that distribution arrangements for controlled cloth also need to be improved so that the cloth actually reaches the more vulnerable sections of society. Certain guidelines have been formulated by the Textile Commissioner in this regard; it is envisaged that ration card holders in the lower income groups should be the beneficiaries of the scheme which should be extended to semi-urban centres with a population of 15-20,000.

4.27 In the interest of weavers, pricing and distribution of cotton yarn was brought under statutory control with effect from March 13, 1973. As the situation in regard to production improved subsequently, the control was progressively withdrawn, starting from the lower counts. At the level of counts above 80's, price control was lifted on 12th February and distribution control with effect from March 20, 1974. This has been replaced by a scheme of voluntary discipline under which ex-mill prices of cotton yarn of all counts are to be maintained for the rest of the year at the level obtaining on March 28, 1974. Also, suitable distribution arrangements are reported to have been made by the Indian Cotton Mills Federation.

4.28 Pursuant to the recommendations of the Tariff Commission, the retention price of cement was raised in August, 1974; this was in addition to the interim increase of Rs. 10 per tonne given in 1973. The Government has further decided that price escalations will be allowed from July each year, if circumstances so necessitate, during the validity of the scheme which is upto March 31, 1979. The Report of the Tariff Commission is noteworthy in that it has brought into focus the plight of factories being established at current high costs of investment. While the Commission has recommended higher retention prices for such units, a decision thereon has not yet been taken by the Government. The question is not limited to cement alone since, due to a steep increase in capital costs, costs of production of new units tend to be much higher than those of existing units. If new capacity is to be encouraged, an effective solution to this problem has to be speedily found. As such, the decision regarding cement will have far reaching implications.

4.29. The action taken in regard to revision of prices has also covered items like coal, basic drugs, aluminium and newsprint, in all of which cases the Bureau of Industrial Costs and Prices was consulted. These revisions were effected during April-May, 1974 so that there was some bunching of decisions, including those relating to wheat and controlled cloth. Coal prices were raised by an average of Rs. 10 per tonne; the need to do so arose from the increase in the cost of production, resulting from higher emoluments to labour, the minimum wage in the industry having been raised by about 50 per cent. Moreover, after

the nationalisation of the coal industry, a large number of casual workers were absorbed in the regular labour force, and this, too, added to the wage bill. In the case of aluminium a price increase of Rs. 1090 per tonne was allowed (over the existing level of Rs. 3990 for electrolytic grade and Rs. 3970 for commercial grade) as the BICP had been of the opinion that the prices of inputs like calcined petroleum coke, caustic soda, etc. had risen while capacity utilisation had also suffered because of the shortage of power. The prices of a number of basic drugs, particularly those which were petroleum based, had to be revised because of the higher costs of raw materials. While the increase in most cases was less than 40 per cent, for a few items the figure was higher. On the other hand, controlled prices of some items were reduced in the light of the Bureau's enquiry. As regards newsprint, the price paid to Nepa mills had remained much below the cost of production because of the policy of maintaining price parity with imports. With rising prices of newsprint abroad, it was, however, considered desirable to give some relief to the company by revising the price to Rs. 1800 per tonne in February, 1974. A further price increase of Rs. 500 per tonne was allowed with effect from September 1, 1974.

4.30. Another industry in regard to which the BICP was required to give advice was that of rubber tyres and tubes. Although this industry was subject to an informal price control, it was found, towards the end of 1973, that it had unilaterally tried to raise the prices of certain categories of tyres and tubes that were in short supply. Government had, therefore, in November 1973, frozen the prices of these particular varieties. The BICP, which had looked into the cost structure of this industry, found that, on the basis of the current prices of raw materials, increases of as much as 50 per cent over November, 1973 prices had become necessary. Rather than continue with a system of price control in which frequent revisions might be necessary because of fluctuations in the prices of raw materials, Government decided in April, 1974 to remove the control, both statutory and informal. Subsequent to de-control, production has picked up though some shortage of automobile tyres still persists.

4.31. De-control of tyres was followed shortly afterwards by similar action in respect of the informal control on commercial vehicles. However, limits have been imposed on the extent of the price increase which is permissible without reference to Government. The same policy was made applicable to agricultural tractors in October, 1974 when statutory control was lifted, subject to certain pricing norms which the Government proposed to lay down. In the case of passenger cars, it has recently been decided to do away with the statutory control on prices, as the six-monthly revision following from the Supreme Court's judgment was proving difficult to administer. There has also been some decline in demand as a result of the substantial increase in the prices of motor spirit. However, distribution control has been maintained in respect of one make of cars, as it was felt that those who had registered themselves earlier should get some preference after having had to wait so long.

4.32. In order to encourage greater production, the informal control over soap has been practically lifted as it is no longer possible to import cheap mutton tallow which, like soyabean and palm oil in the vanaspati industry, hitherto helped to keep down costs of production. At the same time, a part of the industry's output has been reserved for the production of 'janta' soap priced at around Re. 1 for a cake of 100 gms.

4.33. The policy of encouraging the use of non-edible oils in soap manufacture has yielded good results; so has been the case with vanaspati. Nonetheless, the oils and fats economy of the country is far from sound and is a constant source of anxiety.

4.34. The domestic prices of a number of non-ferrous metals, other than aluminium, are governed by the trend of international prices. The MMTC, as the sole importer, decides the level of prices applicable in each quarter. There were increases in January and April, 1974, but, by then, a change had begun to take place in the international market. The upward revisions of July, 1974 did not apply to copper, while lead prices were reduced slightly. Further downward adjustments were made in October in respect of copper, zinc, lead and tin, though the prices continued to be substantially in excess of those fixed in October, 1973. The revisions made in January, 1975 have, however, brought copper prices to a level lower than that of the previous year, while in the case of zinc, actual users can get their supplies at practically the same prices as a year ago. Prices of lead and tin have also been reduced for the January-March, 1975 quarter so that they are below the level of the preceding April. Thus, it is only in respect of nickel that prices have been rising with every successive quarter.

4.35. The happy experience with non-ferrous metals unfortunately does not extend to petroleum products, including fertilisers. The sharp escalation in crude prices has been aptly described as a traumatic experience for the non-oil exporting developing countries. Prices of imported fertilisers have, however, risen to a level which cannot be justified by an increase in feed stock costs; while it has been possible to restrict the increase in kerosene prices to 27 per cent, diesel oil prices are currently higher by 100 per cent and those of fertilisers by 85 per cent as compared to the level a year ago. One can only hope that the necessity for future adjustments will be marginal.

4.36. An important step taken during the year to safeguard the interests of consumers was the promulgation of the Paper (Control of Production) Order on August 1, 1974. Ever since de-control in 1968, the prices of paper had been rising. In the first seven months of 1974, the Wholesale Price Index for paper products advanced by almost 40 per cent. Moreover, the manufacturers had been changing their products-mix so as to produce those varieties of paper which brought in a larger profit. As a result, the more popular varieties of paper were in short supply, and even essential demand, like that of paper for text books and exercise books, could not be met. Government, therefore, issued orders that every mill would produce at least 30 per cent of white printing

paper, and, to avoid by-passing of the order through the production of heavy grammage paper, it was specified that the weight should not exceed 60 grammes per square metre. The Control order also covered the production of some other varieties of paper to the extent of 27 per cent of mills' output.

4.37. The preceding review of developments in price policy clearly brings out an increasing degree of flexibility displayed by the Government in dealing with the complex issues raised by price and distribution controls. On the face of it, sharp increases in prices of controlled commodities need to be avoided in a highly inflationary situation. This applies with particular force to articles of mass consumption. However, if prices of inputs going into the production of controlled commodities cannot be kept in check, a rigid price control can become a hindrance to increased production, thereby accentuating the phenomenon

of shortages. As such, there is no alternative but to revise controlled prices from time to time so as to preserve a reasonable incentive to higher production. By now, there is considerable evidence to the effect that, in the absence of effective arrangements for distribution, price controls may not provide any genuine protection to the consumer. It is precisely in such an atmosphere that black markets flourish, giving rise to generation of vast sums of black incomes. In all such cases, where an efficient system of distribution cannot be devised, the social utility of price controls is seriously in doubt. Of course, since basic supply and demand conditions vary from one commodity to another, no single solution can do justice to the circumstances prevailing in different branches of Indian industry. In recognition of this fact, the Government have increasingly adopted a pragmatic approach to the regulation of prices and distribution so as to strike a proper balance between the interests of consumers and producers.